



ACCOUNTING OF EXTRABUDGETARY REVENUES OF GOVERNMENT AGENCIES

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Synopsis

This Report summarizes the results of the Center of Fiscal Policy Project “Accounting of Extra-budgetary Revenues of Government Agencies”. The Report gives a description of how extra-budgetary revenues of government agencies are currently generated and used, making a case for amending the existing legislation insofar as it concerns interpretation of the term “government agency”. It also provides reasoning in support of proposals on broadening the definition of the budget system and on issues of accounting of extra-budgetary resources of agencies funded from the federal budget.

The authors of the report gratefully acknowledge the cooperation of the officials of the RF Ministry of Finance, RF Ministry of Property Relations, executive officers of government agencies, and officials of regional branches of the Federal Treasury, who provided the needed information on the structure and movement of extra-budgetary resources of agencies financed from the federal budget, and made comments on and expert assessments of the subject of this study.

Table of Contents

<u>Introduction</u>	4
<u>1. Extra-budgetary revenues: definitions and accounting practice</u>	6
<u>Government agency, revenue and expense budget (<i>smeta</i>), and Extra-budgetary revenues as defined in the current legislation</u>	6
<u>Government Agency</u>	6
<u>Revenue and Expense Budget</u>	7
<u>Extra-budgetary Revenues</u>	7
<u>Existing system of control over extra-budgetary revenues of Government agencies</u>	8
<u>2. Goals and Objectives of Government Agencies</u>	10
<u>3. Proposed Concept of Status of Government Agencies and Their Extra-budgetary Revenues</u>	12
<u>Accounting of extra-budgetary revenues in the budgetary process</u>	15
<u>Government agency or business entity?</u>	18
<u>Types of government agencies</u>	19
<u>Proposals and Recommendations</u>	22

Introduction

The Concept of public fiscal policy in the field of expenditures developed by the Russian Ministry of Finance in accordance with the Plan of Actions of the Russian Government in the area of social policy and economy upgrading in 2000-01 places special emphasis on reforming the system of state and municipal unitary, fiscal and publicly-owned enterprises and government agencies as a key avenue for raising the efficiency of budget expenditures. **The idea of the reform is to cut down the public sector while making it more efficient.** In particular, the Concept provides for a voluntary movement of some of the government agencies to the private sector in parallel with a phased reduction in financing provided to them by the government. Primary candidates should be healthcare, education and other government agencies generating substantial extra-budgetary revenues. Presumably, these will compete with other similar institutions for obtaining public financing and bear full responsibility for fulfillment of their obligations. All other government agencies in the long run are supposed to lose their financial autonomy and be funded from the Budget in accordance with a strictly specified *smeta* (budget).

The subject of this study is the current legislation of the Russian Federation defining what “government agency” should be understood to mean, how it should be financed, what procedure should apply to accounting of extra-budgetary revenues of government agencies; and an overview of foreign practices, sources and purposes of spending of revenues raised from extra-budgetary sources by Russian government agencies.

The study seeks to develop a general concept of integrating government agencies into Russia’s regular budgetary system and budget process and work out recommendations for improving legislation in the field of accounting of extra-budgetary resources of government agencies.

The study is based on the analysis of the effective legislation in the field of accounting of extra-budgetary revenues of government agencies, and data contained in accounting statements and information of Federal Treasury branches as well as on foreign experience in the field of extra-budgetary revenue accounting of state-owned institutions. The study does not aim to analyze the way government extra-budgetary social funds are generated and used, although it does provide an overview of how revenues of such funds are accounted for as part of revenues of the budget systems of a number of countries. In view of objective limitations imposed by the time and information available for this study the consultants did not seek to analyze tendencies underlying formation of extra-budgetary revenues of government agencies and motives driving budgetary asset managers and government agencies to raise extra-budgetary revenues. Proposals on how to reform extra-budgetary revenue accounting of government agencies set out in the Report are based on its authors’ concept of including government agencies into the group of institutions whose revenues and expenditures are integrated into the budget process equally with other budget revenues and expenditures. The proposed Concept, if implemented, makes it possible to combine **смешанное** financing of the said agencies with enabling them to raise additional revenues from provision of paid services. The authors proceed from the assumption that material constraints imposed by the government on institutions’ choices about the use of funds from extra-budgetary sources, close state control

over where such funds come from and what they are spent on, and limitations on extra-budgetary revenue totals would, on the one hand, make government agencies capable of fending for themselves voluntarily relinquish their status of government agencies, and on the other, enhance state budget protection from threat of subsidiary liability for obligations of government agencies.

1. Extra-budgetary revenues: definitions and accounting practice

Government agency, revenue and expense budget (*smeta*), and Extra-budgetary revenues as defined in the current legislation

Government Agency

In the Civil Code an agency is defined as an organization set up, and financed in full or in part, by an owner for performing managerial, social and cultural or other functions **not for profit**. The legislation leaves room for **a law or other legal acts to specify legal status to be accorded to certain types of government and other institutions** (Article 120 of the Russian Civil Code).

An agency is the only type of non-profit organizations that is not an owner of its property. Agencies include bodies of state and municipal administration, and training, education, healthcare, culture, sports, social protection and other institutions. This diversity has prevented the Civil Code from specifying any particular titles for their foundation documents. Hence, it may be either a charter or a general regulation for the establishment of an agency of a given type or a statute of a particular organization approved by the owner.

Not being an owner of its assets, **an institution has a right of day-to-day management of assets transferred thereto**, although to a limited extent. Commonly, foundation documents (Statutes) of government agencies have no provisions for such agencies to engage in entrepreneurial activities except in special cases expressly provided for therein. Nor do they provide for that assets transferred to them for operational management may be used in entrepreneurial activities.

The Civil Code also establishes that an institution shall be liable within the limits of financial resources available to it. Where an institution lacks sufficient funds to discharge its obligations **the owner will have to assume subsidiary liability therefor**.

The Budget Code defines a government agency as an organization set up by organs of state power of the Russian Federation for performing managerial, social and cultural, scientific and technological, or other **non-profit functions, and funded from an appropriate budget** or the budget of a state extra-budgetary fund **based on the revenue and expense budget** (Article 161 of the Russian Budget Code).

Revenue and Expense Budget

The legislation currently in force provides no definition for the term '*smeta*' although the concept has been very widely used. For want of an official definition, given below is the one applied under the planned economy system (Box 1).

Box 1

'Government agency budget (*smeta*)' shall be understood to mean the main planning document used for funding of agencies and organizations in the non-material sector from the USSR budget. It establishes the level, purpose and quarterly distribution of budgetary appropriations for all expenditures of a given institution. Upon approval in accordance with the established procedure the g.a.b. serves as a basis for spending of the funds allocated from the Budget. As opposed to other financial plans made in the form of a balance of revenues and expenditures '*smeta*' is a plan of expenses and reflects a unilateral nature of relations with the budget of agencies financed on the basis of a '*smeta*'. Revenues accruing to some of the government agencies from production and other types of activities are normally accounted for in the revenue and expenditure '*smeta*' of special receipts and shall be used in accordance with a special procedure. The g.a.b. shall include total costs required for a normal operation of an agency regardless of whether special and other off-budget receipts are available to cover them. Expenses of government agencies are calculated from their operation and production figures (infrastructure facilities and their client population), based on targets of the plan of economic and social development of an administrative and territorial unit and expenditure norms established per unit or by cost element. The g.b.a. shall not include costs of actions not provided for in the plan. Expenditures in the '*smeta*' are broken down into groups based on the purpose of spending in accordance with items, sections, and paragraphs of the budget classification.

Dictionary of Financial and Monetary Terms in three volumes. Moscow, "Finansi i Statistika" (Finances and Statistics) Publishing House, 1988.

It is much in the same sense that the term '*smeta*' is used today. Yet, the following parts of the foregoing definition are to be acknowledged outdated and invalid: where it reads that the '*smeta*' shall include total costs required for a normal operation of an agency, and where it requires that revenues accruing to certain agencies on top of budgeted financing should be accounted for in a '*smeta*' of revenues and expenditures separately from budgeted financing and that those revenues should be used in accordance with a specially prescribed order. As can be inferred from the definition given to 'government agency' in the Russian Budget Code, the government agency budget (*smeta*) should include not only expenditures but also revenues of such an agency.

The Budget Code establishes that a government agency shall be funded on the basis of a revenue and expense budget that is supposed to reflect all agency's receipts from the Budget and state extra-budgetary funds as well as from business-like activities, including revenues from paid services, and other revenues received from use(s) of state or municipal property assigned to the institution for operational management, and other activities. (Article 161 of the Budget Code). It should be noted in passing that the above definition refers to a single budget (*smeta*) reflecting all revenues of a government agency.

Extra-budgetary Revenues

As can be inferred, government financing is not the only revenue source of government agencies. The owner may allow them to raise extra revenues from authorized activities.

The owner (body of government) should specify such authorized activities in the agency's foundation documents, as is mentioned, *inter alia*, in the Civil Code (Article 298):

"If the foundation documents authorize an agency to engage in income-generating activities, revenues arising from such activities and assets acquired with such revenues should be placed at agency's disposal and accounted for in separate books".

Whether a government agency should make a separate expense budget for each type of revenues or have a single expense budget and whether it should have discretion over use of its extra-budgetary revenues has not been conclusively established in the current legislation. As will be shown later (Section 5: Revenue accounting system of government agencies), the system of qualification of government agency revenues currently in use raises a lot of important problems. However, in this context it is important for us to just note that the legislation currently in force allows a government agency to have a single budget, although in practice for tax purposes they normally make two budgets to keep track each of budgetary and extra-budgetary revenues and what they are spent on.

Existing system of control over extra-budgetary revenues of Government agencies

What makes the problem of establishing control over extra-budgetary revenues of government agencies so urgent is the size of public infrastructure. According to the Russian Ministry of State Property at present there are 33,826 federal government agencies in Russia.

General goals, objectives and principles of management of government agencies in the Russian Federation are set out in the Concept of management of state property and privatization in the Russian Federation approved by the Russian Government in Resolution N 1024 of September 9, 1999 (as amended in Russian Government Resolution N 903 of November 29, 2000).

The Concept establishes, amongst others, the need for reviewing the priorities in the field of disposal of state property, and **toughening government oversight and regulation in the public sector of the economy**. A stronger role of the State in regulation of the economy is not considered therein as a growth of state-owned assets in numbers, but implies higher efficiency of management of enterprises and agencies in Russia.

The system currently employed by the State to control government agencies has many material disadvantages not only preventing it from keeping accurate accounts of revenues and expenditures of, but also enabling, government agencies to act contrary to owner's interests.

To name just a few, under the current legislation the system of government control over extra-budgetary resources of federal government agencies boils down to control exercised by general managers over compilation, and routine and follow-up control exercised by the Federal Treasury over execution of budgets (*smeta*). But even leaving aside the unfinished transition of federal government agencies to the treasury system,¹ the regulatory framework governing the latter is by itself imperfect in that it allows government agencies to raise and spend revenues

¹ Pursuant to Russian Government Resolution N1001 of August 22, 1998 "On measures for transferring accounts of organizations financed from the federal budget for accounting of receipts from entrepreneurial and other income-generating activities to Federal Treasury organs" organizations financed from the federal budget were to cause before January 1, 1999 closure of accounts maintained in the Central Bank of Russia agencies and credit institutions by organizations financed from the federal budget for accounting of receipts from income-generating activities and transfer of the balances of those accounts to their personal accounts opened in organs of the Federal Treasury of the RF Ministry of Finance. However, the above transfer has not been completed so far.

from extra-budgetary sources without adequately reflecting the flow of funds thus raised on their personal Treasury accounts.

For example, institutions today don't have to seek owner's approval for raising debt to finance their activities or make use (including by way of lease or sublease) of thereto assigned state property for generating profits without sharing or reporting earnings thus made with or to the owner.

Contrary to the legislation currently in force, sector federal bodies of the executive branch of government keep no track of immovable property assigned to subordinate government agencies, nor do they take measures to ensure more efficient use of buildings and structures.

In experts' assessment, earnings from lease of federal property amount to over 90 percent of total extra-budgetary revenues of government agencies while actual amounts paid into the federal budget out of earnings from state property lease are substantially below that figure. For example, in the federal budget for 2001 total revenues from lease of federal property, with allowance made for privileged categories of book-holders, are estimated in the amount of RUR 2.4 bln. of which the federal budget will receive RUR 0.6 bln., whereas RUR 1.8 bln. worth of rental payments, although accounted for in the federal budget, will be retained by book-holders.² If we are to solve problems related to management of government agencies there needs to be in place a system of legislative norms and rules that would ensure more efficient operation of government agencies in the interests of both owners and consumers of public services.

The foregoing rules should include **a procedure for formation and use of extra-budgetary resources received by government agencies**. Such a procedure should allow, on the one hand, to define a scope of authority of government agencies in raising and disposing of extra-budgetary revenues, and on the other, to create a mechanism of effective supervision of their use. It shall, in the first place, **ensure a transparent reflection of all extra-budgetary revenues of government agencies in everyday accounting and periodical reports**. Such an accounting and reporting system, if established, will make it possible to identify redundant assets or those that fail to be used or are being used for unintended purposes and reveal revenues derived by a government agency from activities outside the scope of its specific activities identified as the purpose of the government agency.

The main problem here is that the legislation provides no straightforward guide to what the status of extra-budgetary revenues of government agencies is. In particular, it is debatable whether these revenues should be treated as an incremental financing of the agency's core (main) activities or as earmarked funds to be used, say, only for the development of agency's material resources and technical facilities (as opposed to wages and salaries), or as earnings from business-like activities that should be subject to taxes, and whether limitations are to be imposed on such business-like activities (for them not to exceed, for example, 25 percent of the core activities). The current legislation gives no straightforward answers to the

² In 1999 the total space of federal non-residential housing stock was 337 MM sq. m that generated rental income of RUR 95.5 MM, RUR 223 MM, RUR305 MM, and RUR 466.6 MM in 1995, 1996, 1997 and 1998 respectively (in 1998 prices). In 2000 federal budget revenues from lease of federal property by research institutions, and healthcare, education and culture agencies amounted to RUR 2345.6 MM.

Privileges granted by a number of laws vis-à-vis rental payment transfers to the federal budget are estimated at RUR 1,150 MM.

questions described above, this being unfortunate in that such answers are critical for extra-budgetary resource management and the system of management of government agencies in general.

In the absence of a clear answer as to what the status of extra-budgetary revenues of government agencies should be the system of management of extra-budgetary resources of government agencies, although by and large **existent**, with each of its components **developing** in one way or another, remains overall **inefficient**.

It stands to reason that before reforming the system of management of government agencies one needs to clarify their **goals and objectives** and define more exactly the **status** the agencies themselves and extra-budgetary revenues they generate, should have. Only then will it be possible to develop a system of legislative norms and rules capable of ensuring an efficient operation of the overall system of government agencies.

2. Goals and Objectives of Government Agencies

The Concept of public fiscal policy in the field of expenditures developed by the Russian Ministry of Finance places special emphasis on reforming the system of state and municipal unitary, fiscal and publicly-owned enterprises and government agencies as a key avenue for raising the efficiency of budget expenditures. *Inter alia*, it provides for a voluntary movement of some of the government agencies to the private sector in parallel with a phased reduction in financing provided to them by the government.

The way the problem is looked at suggests that at least some of the government agencies may fend for themselves, and, in particular, not only without financial support from the Budget but also without government oversight. This raises the question as to whether government agencies should be given a right to choose a status for themselves. Is there a risk that, if “set free”, a government agency will turn to performance of commercial functions and, as it happens, abandon socially important activities it has originally been created for? Or in other words, if a government agency can successfully exist as a non-governmental sector organization why is this niche in the non-governmental (market) sector still empty and no similar organizations have been created so far under the impact of market forces? Are there valid reasons for the government to intervene in the delivery of a particular service or should the market be given complete control over it?

There are in effect different ‘grades’ of government interventions in provision of socially important services.³ Those services can be provided by (1) public organizations, (2) organizations of non-governmental (private) sector under state orders (on a contractual basis)

³ The term “socially important” services as applied to services delivered by government agencies is not very appropriate since any services provided on commercial terms and conditions should also be acknowledged important from the social perspective, this being strongly supported by clients’ willingness to pay for them. Social importance of a service is not a valid ground for government intervention (being a necessary but not sufficient requirement therefor). Spillovers that leave the society better off but are not covered by a private service price do not make a strong enough case for such interference either, since consumption of any private services, products or goods is in one way or another creating beneficial or detrimental effects for the society. However, some services are nevertheless successfully provided by the private sector while others are traditionally considered to be public ones. That government agencies have to be created because of market failures is not always a convincing argument either, since very often market failures are caused by the monopoly position of government agencies in a sector.

or (3) private sector organizations regulated by the government (in the form of licensing). The status currently enjoyed by government agencies is one by which they are guaranteed full or partial funding from the Budget. However, it has to be decided whether this way of provision of socially important services is the most cost-effective from the Budget perspective and whether contract awards through bidding without differentiating between government agencies and private sector institutions are a better and cheaper way of doing it. If what is suggested here can work for at least some of the services, agencies engaged in certain types of activities won't have to move to the private sector neither voluntarily nor compulsorily, just because it is public services, not public institutions that will be funded from the Budget. This will change "rules of the game" in the market for all participants of whatever ownership or legal form. As this happens, rather than decreasing, the level of funding of public services may even go up. However, guaranteed funding of government agencies will give way to awards of contracts through bidding procedures, with no distinctions to be made between state and private institutions, at least from financing standpoint.

In addition to partial government financing there is another good reason for government agencies to stick to their status: tax privileges. A more detailed description of tax benefits and proposals on modification of the existing system of tax privileges for government agencies will be given later in the report (refer to Section "Qualification of revenues for tax purposes"). Meanwhile it will suffice to say that if "rules of the game" change in the proposed vein it is important to decide whether tax privileges should continue to apply to government agencies' activities or be granted for specific functions acknowledged by the government to be of social importance, regardless of the ownership form of their provider.

Although common sense suggests that public financing should be provided, either directly or indirectly, to support social services or functions, rather than government agencies it has long become a tradition to give state support not only and not so much to residents that consume government services but to government agencies and their employees. Apparently, we are dealing here with a substitution of the purpose for which government agencies are created. In any case, it has become quite common for low wages for teachers to be used as nearly a principal argument for increasing the level of financing of education. And this just starts the list: the need for more funds for healthcare is substantiated by low wages of medical personnel; low wages for researches are used to make a case for higher level of funding of R&D. Wages for government agency employees being indeed low, the budgetary statistics nevertheless reflects spending on wages only out of directly transferred government funds, failing to capture fringe benefits paid to government agency staff out of extra-budgetary revenues. But more importantly, we are confronted here with a substitution of the purpose for which government agencies are created. For example, one must not rule out a possibility that the quality of medical services would have improved, if the share of subsidized medicines or medicines used for in-patients in total spending on healthcare increased. However, the Budget Code principle whereby expenditures having to do with ensuring minimum public standards are to be funded in the first place is commonly considered to be referring to priority financing of wages for government agency personnel.⁴

At present the purpose of spending on maintenance of government agencies is hence twofold: delivery of socially important services to the population and provision of social support to public sector employees. For example, to equalize per capita budget revenues across

⁴ It is likely to be due to that the Uniform Schedule of Wages for public sector employees alongside monthly child benefits is almost the only government minimum social standard currently in force.

localities, many subjects of the Russian Federation rather than equalizing budget resources available per resident in each locality are striving to achieve equalization of budget resources per public sector employee. In other words, they are calculating minimum budgets of the localities based on the number of physical facilities available within the locality, not the number of clients for local government services. Clearly, there is a relationship between the number of clients and the number of public sector employees. However, in their desire to support medical doctors, teachers and other representatives of public sector professions regional authorities of the Russian Federation often go too far and keep on spending substantial amounts on maintenance of social infrastructure in localities where per capita level of public services provision is excessively high or act in disregard of population needs for public services in cases where a necessary municipal facility is non-existent in a locality.

A switch over from financing of institutions to financing of functions should be organized in such a way as to make it as painless for government agency employees as possible. Of certain avail can be experience of foreign countries that try to avoid lays-off in the public sector, and where there is a need to cut down the number of employees or shut down government agencies they impose bans on employment of new workmen. However, the discussion of how the switch over mentioned above may be achieved is beyond the scope of this overview. For one to be able to plan any actions to straighten out the existing system of government agencies one should at least know how many they are, what functions they perform and how much money they have. Therefore, the first thing to do should be an inventory of government agencies and organizations to be followed by establishment of a stringent system of accounting of extra-budgetary revenues of existing government agencies and organizations.

3. Proposed Concept of Status of Government Agencies and Their Extra-budgetary Revenues

One cannot develop a concept of law-based solution of the problem of extra-budgetary resources of government agencies under conditions of transition to the market economy without first resolving the following issues:

1. May government agencies provide paid services as their core or one of the key activities at prices close to market ones (or should they be deprived of the right to charge non-subsidized prices for their services)? Can government agencies be fully self-paying and generate planned profits?
2. May a government agency engage in profits/income generating activities outside the purpose for which it has been created?

Can a government agency be self-paying? The answer to this question that suggests itself is “yes”. Government agencies can provide paid services as their core activities and, as a matter of fact, be self-paying. The following arguments can be possibly adduced against it: (1) If a government agency is self-paying wouldn't it be appropriate to make it private or remove it from the public sector in any other way? (2) Wouldn't self-sufficiency of government agencies run counter to the definition given to them in the Civil Code whereby an owner is to finance a government agency in full or at least in part, or to the Budget Code definition requiring

government agencies to be financed from the Budget on the basis of revenue and expense budgets?

(1). In addition to purely economic reasons there are also political considerations in support of government agencies going private or remaining as part of the public sector. A detailed review of political reasons that may weaken the case for privatization of self-paying government agencies goes beyond the scope of this study. We'll mention just a few. Some government agencies (such as culture institutions) may, for instance, be a matter of pride for the founding government, and their transfer to the private sector would be objectionable in view of their important social role. Furthermore, some of the functions such as official registration, even if performed for a fee, may not become private.

(2). A government agency is a property of its founder, i.e. of a founding body of state power. From this perspective any income raised by a government agency should be treated as constituting government revenues. For example, in the event of liquidation of a government agency the government as an owner shall be entitled to consolidate in the budget whatever assets left after payments to creditors. Hence, 'off-budget' revenues of government agencies are, as a matter of fact, a form of government financing, and hence "break-even" government agencies are well suited for inclusion in the category of "agencies financed from the Budget".

May a government agency engage in profits/income generating activities outside the purpose for which it has been created? A key distinction between government agencies as non-profit organizations and state unitary enterprises governed by the principles very similar to those of profit enterprises lies in that an agency's owner bears subsidiary liability for its obligations. It necessitates the following restrictions: (1) **A budget institution shall not be entitled to borrow funds** (other than loans extended by the founder), neither in the form of bonds or accounts payable or loans from commercial banks; debt issuance should become an exclusive prerogative of the legislative branch of government. (2) **A budget institution shall not be entitled to engage in entrepreneurial activities**, defined in the Civil Code as activities undertaken at one's risk, since by definition a government agency, with its founder bearing subsidiary liability for its obligations, can run no risk of its own. (3) **Discretion of government agencies over extra-budgetary receipts shall be limited by a budget (*smeta*) approved in accordance with the established procedure or general rules of spending of extra-budgetary resources** to be established for more than just a fiscal year. In the latter case where a budget institution is supposed to be given fairly wide discretion over spending of extra-budgetary receipts, it will be reasonable to establish an overall limit on extra-budgetary revenues, with surplus to be centralized in the Budget.⁵ The limit may be set high enough not to dull the incentives for a government agency to raise funds from extra-budgetary sources. (4) A government agency shall maintain no accounts in commercial banks. All its revenues and expenditures shall be run through the Treasury under and with its founder control and consent.

Alternatives of government control over revenues and expenses of government agencies. The latter statement concerning government oversight lends itself to different interpretations ranging from that government agencies should be barred from having extra-budgetary revenues to that they should be granted a fairly high degree of autonomy in using extra-budgetary receipts. In theory there can be at least three alternatives of such oversight differing in the degree of autonomy granted to a government agency (in all three the revenues

⁵ Similar restrictions are imposed in other countries. For more details see the Section on International Experience.

and expenditures of all government agencies are supposed to be accounted for through the Treasury system). The review of international experience in accounting of government agencies' own revenues (see next Section) has shown that all three alternatives are in one way or another used in practice by other countries.

(1). **Сметное financing provided exclusively from the Budget.** Payments for services provided by (or any other extra-budgetary revenues such as voluntary donations arising from the activities of) a government agency shall be centralized in the Budget. Government agencies have no accounts of their own for accounting of their extra-budgetary revenues and are funded only by annual appropriations. Funds earned by a government agency require appropriation by a legislative organ that may appropriate them for support of the agency itself or other purposes or pay back to the payer (in case of donations for a particular government agency). For example, neither courts nor the army should have extra-budgetary revenues.

(2). **Financing of a government agency based on two or more budgets (*smeta*).** Payments for services delivered by a public institution are considered to be founder's "special" income. What makes it "special" is that it accrues from fees collected from particular payers for a delivery of particular services rather than from taxes. Consumers who pay for a particular service have a right to expect these receipts to be in full or in most part spent on production of a particular service rather than on other spending functions of the government in general or a government agency in particular, since a service consumer has already paid for the said other purposes of spending as a taxpayer. Having collected fees for a service a government agency in effect entered into contractual relations with the service consumers. Thus, the government shall not be entitled to centralize the receipts in the budget and dispose of them at its own discretion. Therefore, if it allows a government agency to collect payments for production of services, the State shall allow the agency to spend all or part of collections on income-generating activities. To this end the State may allow a government agency to open up an account in the Treasury for accounting of extra-budgetary revenues, and specify a procedure for and purposes of spending thereof. By the same token, the founder may disallow a government agency to spend extra-budgetary receipts on anything except income-generating activities. Or it may set other purposes of spending by stipulating that extra-budgetary revenues should be used for the development of agency's technical facilities and material resources rather than for wages and salaries, or the other way round. Thus, the public institution has two accounts opened for it in the Treasury: one for accounting of government financing and the other – for accounting of extra-budgetary revenues. For each account there should be a separate expense budget or an indication of purposes of spending.

(3) **A single budget (*smeta*) financed at the expense of budgetary and extra-budgetary receipts (possibly in combination with a separate budget (*smeta*) for special sources of revenues and purposes of spending).** There are cases where fees collected by a government agency are spent on maintenance of the entire agency rather than on just one of its activities because the line of activities generating income is inseparable from the rest of the agency's business. In those cases it makes no sense or even impossible to have two separate budgets for accounting of government financing and extra-budgetary revenues. It would be more reasonable to treat extra-budgetary revenues as additional appropriations of on-budgetary revenues that would require an approval in accordance with the established procedure. That such appropriations are "additional", i.e. go on top of direct government financing should not be understood to mean that unlike other appropriations approved at the time of adoption of the budget, they should be approved during a fiscal year. If a source of extra-budgetary revenues is stable (which is very likely where a revenue source is connected with the agency's core activities, since government agencies, as their nature suggests, are not supposed to strive for

casual earnings, although one can never exclude the possibility of incidental revenues as well as incidental expenditures) receipts therefrom can be planned in advance and approved as an “extra-budgetary appropriation” as part of the annual appropriations process. If a revenue source is unstable or haphazard making it impossible to approve revenues therefrom as an “extra-budgetary appropriation”, an appropriate decision will have to be made during a fiscal year. International experience bears witness to that such unstable revenues can be posted to the agency’s personal account in the Treasury as negative expenditures. In the latter case there is no need to review appropriations already made since “negative expenditures” are offset against expenditures and don’t increase revenues (i.e. appropriations). However, practicability as well as reasonability of the above approach is questionable as it may weaken control over a government agency’s income, small and unstable as it is.

Accounting of extra-budgetary revenues in the budgetary process

All the foregoing options of **budgeted (cmethoe)** financing of government agencies with allowance made for extra-budgetary revenues emphasize the need to clarify the terms of “budget”, and “budgetary system”. The Budget Code defines Russian budgetary system as a **combination of federal budget, regional budgets, local budgets and state EBF budgets** (Article 6). In other words, the budgetary system represents a combination of funds, the federal budget being one of them. The definition refers also to budgets of different levels and EBFs, but contains no mentioning of budgetary funds. As there is no readily available definition of a budgetary fund that can be proposed here we’ll try to explain what it means on the intuitive level. The bulk of the budget of any government level is represented by a cash fund accruing from revenues not earmarked for specific expenditure purposes that are annually determined by the legislative body and are covered by budgetary appropriations. In addition to such revenues that are not earmarked for a particular purpose of spending, the government may also have earmarked revenues to finance specific expenditures. Hence, the government does not have the same degree of discretion over such funds as it has over non-earmarked revenues, although the extent of the government’s control over such funds is fairly important, and spending decisions on both types of assets at the end of the day are taken in the integral (common) context. From this perspective, a budget in our conventional (narrow) sense is just one of the budgetary funds (albeit the most important one), while the extended notion of the budget may also include other budgetary funds. The “separate nature” of these funds manifests itself in that they have “own” earmarked sources of revenue, that become revenues of the extended budget not directly, but through relevant budgetary funds. Each of them, including the budget itself, possesses its own internally balanced system of accounts.

Therefore a budget (whether federal, regional or local) in our conventional understanding should be treated as a fund of the budgetary system, which is financed by general (not earmarked) taxes while spending of its proceeds is not regulated. Extra-budgetary assets (funds, revenues) of public institutions represent the same funds of the budgetary system as the budget, but they have their own (earmarked) sources of revenues and their proceeds are spent for specific purposes. In particular, a public agency may exist solely on account of its revenues, for example, by collecting fees for provided services, while remaining a government agency. Revenues and expenditures of such institution are revenues and expenditures of the budgetary system; however, they should be accounted for not as a portion of revenues and expenditures of the main budgetary fund, but as a portion of revenues and expenditures of a special budgetary fund, i.e. the fund of a specific agency.

Naturally, one may ask here whether this accounting system would not be too cumbersome. Indeed, if all thirty thousand government agencies at the federal level were classified as budgetary funds, then the budgetary documents would become boundless. However such level of detail is not required for filing budgetary documents (draft federal budget, report on execution of the federal budget). It is enough to break all government agencies into sector categories – for example “Funds of Medicare government agencies”, Funds of cultural government agencies” etc., or to introduce several types of funds (for example, self-sufficient, or “business-like”, and ordinary subsidized funds).

Besides, budgetary classification should be supplemented with classification of revenues and expenditures of government agencies. In particular, it should be supplemented with classification of revenues and expenditures of government agencies. Funds of government agencies could be reflected in the budget by sector – i.e. budget allocations to sector ministries should be recorded alongside with allocations (budgetary and extra-budgetary revenues) for financing subordinate government agencies, i.e. agencies in respect to which those ministries act as main managers of account. Direct recipients of monies from the federal budget (and possibly, largest government agencies) may be reflected in the budget separately from sector funds. Thus, for example, Moscow State University is a typical government agency that may be treated for budgetary purposes as a separate fund. Apparently, all of the foregoing will require updating of the budget classification by sector.

The boundaries of public finance in the Russian Federation are now blurred. Inventory of government agencies and government-owned companies has not been completed, with no division of assets and revenues generated by such assets made so far between different levels of governments and fiscal system. Given below is a description of two currently existing practical approaches to definition of public finance and management of government-owned assets (Boxes 2 and 3).

Box 2

Federal Government Asset Complexes

In 1998 state-owned unitary company (ГУП УА) for management of Medical Center’s assets was established under the RF President’s Administration. Since 1998 ГУП УА has launched 34 unique structures, which are called federal government asset complexes (ФГИК) under the President’s Administration. A feasibility study for reorganization of Joint-stock Company Rostovugol (Rostov coal mining company) was submitted to the Government of Russia and the President’s Administration. For this purpose private property, i.e. 12 mines and 31 entities of Rostovugol were to be transferred to the Administration for temporary use. After becoming ФГИК, Rostovugol would obtain major tax benefits, which are enjoyed by the Administration’s entities, and an estimated 4.4-times reduction of tax burden will be achieved by such ФГИК vs. Rostovugol.

The Ministry of Energy also views the ФГИК concept as a productive one. Gennady Seleznev, Speaker of the Duma, and Viktor Kazantsev, one of the special representatives of the President, endorsed this approach in their letters to President Putin.

On the contrary, the Ministry for Economic Development and Trade is of the opinion that such legal status as ФГИК “does not fit in the legal framework provided by the Civil, Tax and Budget Codes”.

Mr. A. Danilov-Danilyan, Head of Economic Department under the President’s Administration, emphasizes that “Before this year the corresponding item was recorded in the confidential section of the budget”.

Advisors believe that the foregoing example features inadmissible blending of state management and business functions.

Source: *Vedomosty* newspaper, 25 June 2001.

Box 3

Who owns historical and cultural monuments?

In 2001 the Ministry of Culture and the Ministry of Property of the Russian Federation established the Agency for Management of Historical and Cultural Monuments. It is expected that the Agency will manage ancient federal buildings in Moscow, lease out and sell such buildings and rip profits. The primary objective of establishing such Agency is to identify owners of various assets.

Establishment of the Agency has already provoked a conflict with the Government and Mayor of the City of Moscow. The Mayor in his letter addressed to Prime Minister Kasyanov stated that the Agency strives for declaring Moscow monuments of federal (national) importance as belonging to the federal government. The Mayor urges to set up a special commission, which would divide Moscow monuments into Moscow and federal property.

A year ago by approving the law «On Protection and Use of Real-estate Monuments of History and Culture» the Capital speedily declared all architectural monuments in Moscow as belonging to the City. However, the Supreme Council of the Russian Federation in its Regulation (# 3020 dated 27 December 1991) expressly ruled that sites of federal importance fall under federal ownership. Therefore, Moscow laws on use of national heritage are in apparent conflict with federal laws and need to be revised. If Moscow disagrees, then the federal government will be entitled to file a suit and the capital will have to return to the federal budget large amounts of cash generated by illegal lease of federal property.

Previously, top authorities of the country allowed Moscow to use federal assets as if they were Moscow's own property. Thus, organizations which are located on the sites of national monuments (and these include GUM, TsUM, *Gostiny Dvor*) continue to pay rent to Moscow with the proceeds going to the municipal budget, while pursuant to applicable laws the same should flow to the federal treasury.

How much does the Capital of this country earn from federal monuments? Independent experts speak of 1,723 historical and cultural real-estate monuments of federal importance in Moscow with the total area of about 2.5 MM sq. m. Only 0.7 MM sq. m of these may generate any feasible revenues. The government-approved average rent in Moscow is RUR1,500/sq. m per annum. As for commercial rates, experts point at RUR6,000 sq. m.

Under the first scenario Moscow collects annually about RUR1bn. Under the second scenario the proceeds rise to RUR4.2 bn. On top of that, Moscow generates some income from lease and privatization of local monuments.

Last year the capital spent RUR1.8 bn on restoration of monuments, including RUR1.3bn provided by investors and the federal budget (RUR67.5 MM).

Consultants are of the opinion that revenues generated from use of federal property should flow to the federal budget.

Source: *Moskovskie Novosti* 12.06.2001.

Government agency or business entity?

Services provided by organizations in the public sector should not necessarily be free of charge and subsidized. If an entity owned by the government, was established, however, with a view not of providing socially important services, but rather generating profits, then such entity is not a government agency, but a commercial enterprise, albeit falling under the public sector. At the same time, public institutions should not necessarily be loss-making. Indeed, they may be financially viable and generate planned profits, provided it falls in with performance of such socially important functions for which they have been established. However, profit making should not be the goal of government agencies. With some institutions the state nature of their activities (for example, registration chambers) or special importance of such institutions for the nation's image, or their special role as highly hazardous sites (it is unlikely that we will be able to list all options, since the decision on according the government agency status to an entity may be taken both for an entire class of institutions and for individual institutions on a case-by-case basis). The fact that government agencies raise planned profits from their activities (with such profits used for the development of agencies themselves) **does not turn such activities into commercial or business-like activities**. Payment which public institutions collect for their services should be treated as a sort of tax which is earmarked and set at a level that would ensure sufficient proceeds for performance of this specific socially important function and for extended reproduction of the same. Essentially, the same would apply to all conventional taxes – they should be set at such a level, that would ensure sufficient proceeds not only for maintaining but for expanding the public sector.

Thus, profit making in itself does not turn activities of a government agency into commercial activities. In any case, **core operations of government institutions, even if carried out for remuneration, should not be classified under commercial or business category**, due to the fact, amongst others, that the government authority that established the institution must control prices for its services. .

Another issue is whether a public institution may engage in non-core and other activities that generate waterfall profits? The answer to this question should be negative. If some activities yield high returns as per commercial standards, then such activities should be left to the private sector, otherwise the dual role of the power body, which, on the one hand, sets the market rules (control functions), while, on the other hand, acts in this market as a business entity (business function), will inevitably result in a conflict of interest. **The main goal of government and control bodies is not to earn money from commercial operations, but provide services financed by taxes that they should charge**, i.e. they must create such investment, financial etc. environment which would allow taxpayers to normally exist and pay taxes. Any reservations about giving power bodies an opportunity to earn money so that they can invest proceeds into profitable businesses (raising additional revenues) till such time when they accumulate sufficient funds, will not hold water, but do spawn corruption, prompt chase after money for money's sake and creation of exclusive conditions for "selected" entities by restricting competition and establishing "artificial" monopolies. We believe that this should be the answer to the foregoing question.

Government bodies and public institutions, as a rule, should not engage in any non-core activities, because the only possible underlying reason for their interest in any such activities is high profit associated therewith. Moreover, government entities and public institutions should not target at high profits even when pursuing their core activities. Prices for their services should be established on the cost-plus basis (for services of monopoly nature) or at the market price level, with such rule to apply to any services provided by government agencies for a fee.

A portion of such price may be subsidized by the budget although not on a mandatory basis. (Apparently, the only instance when a government entity is entitled to rip waterfall profits from its activities is when such activities are designed to restrict consumption of something undesirable, i.e. represent a penalty).

Types of government agencies

As has already been discussed earlier, government agencies may include institutions, that are prohibited to raise any extra-budgetary revenues, although the majority of government agencies should be allowed to provide their services for remuneration. Attributing an agency to a particular type should be on the basis of functions it performs.

The state has certain obligations to provide certain vital services. These services must be provided to everyone. Such services may be free of charge due to either impracticability or inefficiency of charging a fee (for example, provision of services in the area of control, activities of judicial bodies, national security, etc.), or due to necessity of providing social guarantees stipulated by the Constitution. Whatever is above the said minimum may and should be provided for payment, in which case the state shall only guarantee **availability** of a service in the market, and not the provision thereof. **Prices for budgetary services should be restricted only if there is another kind of obligation, i.e. guarantee of accessibility of any such service.**

Thus, the following classification is suggested for government agencies:

The first type of government agencies includes institutions that are **prohibited to have and use extra-budgetary revenues and accounts**. Such institutions should include **institutions**, which were established for the purposes of **government control, national security and defense, law enforcement**, as well as **institutions of the judiciary system, prosecution, and penitentiary system**. The main criteria for classifying institutions under this type should be their functions of government control, judiciary power, law enforcement, and national security. Revenues that any such institutions may receive from extra-budgetary sources - proceeds from lease-out of assets which are temporarily out of use, various charges, earmarked proceeds, charity contributions, etc. – **all flow to the budget with no linkage to expenditures of specific institutions**. For any such institutions, the law should provide **direct ban on opening accounts for accounting of extra-budgetary revenues**. Budgetary financing should be the only source of revenues for such institutions (direct budgetary [*smetnoye*] financing), and they should have a guarantee of budgetary immunity.

The majority of other government agencies (**the second type agencies**) – social protection institutions, healthcare institutions, scientific, cultural institutions, etc. – may have extra-budgetary revenues and accounts for accounting of extra-budgetary revenues, where charges for services, sponsors' aid, grants, charity contributions, etc. should be credited to. All extra-budgetary revenues and expenditures of such institutions should be posted to personal accounts for extra-budgetary funds open with federal treasury branches. Depending on the institution (or type thereof) there may be an option to use one account for all revenues of the institution (both direct budgetary [*smetnoye*] financing proceeds and extra-budgetary revenues) and a single budget (*smeta*) to account for all revenues. The same should be the case for funds received by a government agency from budgets of other levels or state non-budgetary funds. For accounting purposes all these receipts should be treated as extra-budgetary revenues.

Budgetary and extra-budgetary revenues should be reflected in the single balance sheet of an agency.

Subsidiary liability of the government should be maintained with regard to liabilities of second type government agencies. In our view, all institutions of the second type should apply for a compulsory accreditation with and obtain approval for starting the above-mentioned accounts from a relevant ministry (science, education, healthcare), and their charters should be registered with the Ministry for Property Relations of the Russian Federation. For government agencies that are authorized to raise extra-budgetary revenues, all restrictions on the amount of services provided for remuneration and other extra-budgetary revenues should be lifted (to the extent that any such services are their core activities). However, restrictions may be imposed on the amount of revenues generated from such activities (provided that the surplus will be transferred to the budget), and the charter of any such institution should contain a full and sufficient list of extra-budgetary activities thereof. The law also should expressly ban any intermediary and business activities, unless these are associated with the core activity of the agency. The criterion of association in this case should not be the purpose of use of any such funds (for example, acquisition of equipment, payment of wages, overhaul of premises, etc.), but the source of funds (**exclusively**, the activity for which the institution was set up).

In our view the criteria for classifying institutions under the first or second type (or a specific list of government agencies of the first and second types) should be included in the Government's regulation of the system of government agencies in the Russian Federation. Procedures for making of the budget (*smeta*), budget (*smeta*) format for extra-budgetary revenues, flow pattern for extra-budgetary funds, uniform taxation and exemption rules should be developed (updated) for the second type of government agencies, with relevant amendments to be made to the budgetary classification.

All other government agencies that currently raise significant extra-budgetary revenues from non-core activities or such institutions whose core activities upon closer examination may be excluded (by a decision of the government or legislative assembly) from the list of budgetary services, should be at some later stage deprived of their government agency status and reorganized into any other legal structure. It could be a fund, non-profit organization, unitary enterprise, joint-stock company, etc. Accordingly, such entities should maintain their accounts and file their reports in accordance with applicable laws for entities, which are not government agencies. The government should not be liable for obligations of such entities. They may receive budgetary funds in accordance with the general rules of bidding for funds for government purchases. Those entities should open separate accounts with commercial banks for separate accounting of budgetary funds.

Naturally, should this new treatment of government agencies be approved, not only the status of the existing government agencies will have to be reviewed (some of them will retain it, while others will lose it immediately or after some time), but the definition of government unitary (state, etc.) entities and organizations will have to be clarified, and full-scale stocktaking of such entities and organizations should be undertaken (or completed, if such exercise is already under way). One will also have to decide on the status of some government enterprises, with some of them to be possibly transferred to the government agency category (See Box 4). Whether an enterprise or organization that provides socially important services makes profit or loss should be in no case regarded as a criterion for classifying such an organization as an enterprise or agency. Say, a private company may be organized for performance of a socially important function (for example, construction of an airfield) and it will operate under a government contract on a break-even basis, while remaining a private

sector entity. We assume that the main criterion for including an agency that raises extra-budgetary revenues to the government agency category should be willingness of the government (state) to assume subsidiary liability for its obligations. More or less clear-cut criteria are unlikely to be applicable for this purpose. A decision on the issue, whatever it may be, will probably be governed by political, rather than economic considerations.

Box 4

Boundaries of public finance sector and accounting issues of extra-budgetary funds: a case study on the Ministry of Railways and Ministry of Defense

Any analysis of collection and use of extra-budgetary funds by bodies of power and government and government agencies is impeded by absence of any clear-cut boundaries between public (state) and corporate finance in applicable legislation. Such situation, in particular, prevails in the sectors where a significant portion of enterprises has not been privatized and ministries and departments have retained a significant clout with enterprises falling under their jurisdiction. Thus, within the system of the Ministry of Railways one will find not only extra-budgetary funds which are accounted for and the use of which is analyzed by the Main Department of the Federal Treasury (ГТФК) of the Ministry of Finance, but also those extra-budgetary funds where cash flows are not transparent for the Ministry of Finance and may be assessed only by special audits of relevant control bodies.

According to reports filed with the federal treasury authorities by government agencies and organizations within the system of the Ministry of Railways, the amount of receipts for 2000 on personal accounts maintained for accounting of extra-budgetary funds of the Ministry of Railways and the foregoing institutions and organizations totaled RUR6.98 bn (of which RUR6.86 bn were spent).

At the same time, in accordance with the report produced by the Accounting Chamber, in 2000 the Ministry of Railways managed assets of a number of earmarked extra-budgetary funds which had accounts with Transcreditbank (a commercial bank), including:

- the fund for support of educational institutions (in the system of the Ministry of Railways) (1.5% of the total before-tax profits of enterprises in the sector);
- the fund for support of central healthcare institutions (in the system of the Ministry of Railways) (1% of before-tax profits);
- the fund for international operations (1% of before-tax profits)
- the fund for investment projects of sector-wide scale (36,6%)
- the financial reserve fund (5%).

According to the information of the Accounting Chamber, overall in 2000 the earmarked funds of the Ministry of Railways “illegally consolidated” for the purpose of “maintaining the sector infrastructure” amounted to 100% of depreciation charges and about 45% of before-tax profit of railroad sector enterprises, or RUR52.8 bn. Thus, extra-budgetary funds kept on accounts with the federal treasury authorities amount to a mere 11.5% of total extra-budgetary cash available to the Ministry of Railways, its enterprises and organizations.

This situation is typical of not only the Ministry of Railways which is evidenced by the interview with S.Ivanov, the **Minister of Defense**, published in *Izvestia*, where the Minister is quoted as saying: “Sometimes we ourselves do not know exactly how much of extra-budgetary funds we have. (...) such funds are oftentimes used inefficiently and insufficiently. Take, for example, proceeds from salvaging. Before we sometimes picked out “raisins from the bun”, i.e. extracted and sold precious metals, while the rest was just thrown away. Now we are going to do full-scale salvaging. Under the Ministry of Defense we have the Central Department of Material Resources, which will take care of this issue. All proceeds will be consolidated and thereafter appropriation decisions will be taken jointly with Commanders-in-chief of all Arms depending on the needs and priorities of the Armed Forces”.

Source: *Vedomosty* 27.06.2001, *Izvestia* 25.06.2001.

Proposals and Recommendations

Our consultants have proposed the following priority steps to be taken in implementing the Concept of reforming accounting of extra-budgetary revenues of government agencies:

1. Finalize the establishment of the system of federal government agencies based on the results of stock-taking of the existing government agencies, enterprises and organizations with currently existing government agencies to be transformed into one of the following categories: (a) **state bodies of power** and **public institutions** not entitled to receive and use extra-budgetary revenues for their own needs or open accounts for accounting of the same; (b) **government agencies** that are given the right to receive and use extra-budgetary revenues for their own needs and open accounts for accounting of the same; (c) other public and private enterprises and organizations that are entitled to budget appropriations in accordance with the current legislation. For a government agency to be included in the category of government agencies a founder/owner shall admit subsidiary liability for agency's obligations. State organ's decision on admitting such liability in case of creditors lodging claims against a government agency shall be set out in its foundation documents. Whether an organization is or is not in need of a direct government financing shall not be taken into account in deciding on whether or not it should be accorded a status of a government agency, since government services may as well be provided by profit organizations under a contract with bodies of power (on a contractual basis). The status of a government agency and name of a founding government organ together with a complete list of authorized activities should be specified in the foundation documents.

2. Finalize the division of revenues generated from the use of property between levels of the fiscal system based on how property is divided between the levels of power and government. Ensure that **revenues arising from use of federal property are accounted for in full in the federal budget**.

3. **Integrate extra-budgetary receipts in the fiscal system and regular budget process.** Consolidated (sector) budgets (*smetas*) should be considered and approved in the course of adoption of the Law on the federal budget while consolidated reports of general managers (on subordinate institutions) and spending agencies receiving funds directly from the federal budget (on the use of extra-budgetary receipts) should be approved as part of the report on federal budget execution for a particular year. Government agencies should have the right to use extra-budgetary revenues only within the limits of the *smeta* approved by a budget resource manager. Control over compliance with the *smeta* should be the responsibility of Treasury organs.

4. **Finalize transfer of all accounts of government agencies to the Federal Treasury for accounting of extra-budgetary receipts.**

5. In view of specific conditions of the sector general managers of budget resources should:

- **Determine and set out in foundation documents of government agencies the procedure for making budgets (*smetas*) for accounting of extra-budgetary receipts;**
 - **Determine and stipulate limits on extra-budgetary revenues.**
6. The following restrictions should apply to government agencies:
- A government agency shall not have the right to borrow funds (except for loans provided by the founder);
 - A government agency shall not have the right to engage in entrepreneurial activities, defined in the Civil Code as activities undertaken at one's risk, since its founder bears subsidiary liability for its obligations;
 - Government agency's budget shall be approved and controlled by the general manager/founder. Unintended use (not provided for in the budget) of extra-budgetary receipts involves administrative punishment provided for in the foundation documents of government agencies and/or CEO labor contracts.
7. State property shall be transferred to and kept in the books of a government agency for it to be able to carry out its charter activities. In the event of liquidation (or change of an ownership or legal form) of a government agency state property shall be transferred back to the books of the Ministry of Property (founder).
8. **Assets acquired by a government agency out of its extra-budgetary revenues shall belong to its founder** (government) and be accounted for as part of the assets (transferred to the books) of the government agency.
9. **Tax benefits should be granted to** organizations regardless of their ownership and legal form, **depending on types of their activities.**
10. For Treasury organs to be able to control compliance with the budget and prevent separate budget items as well as the total budget of an agency from exceeding established appropriations, the expenditure accounting practices of government agencies will have to be changed by making changes in the chart of accounts for government agencies. The proposed changes should provide for a phased spending process and reduction of a free balance of appropriations in cases where an organization undertakes payment commitments (concludes contracts and agreements, including labor contracts). In other words, the current accounting system should be supplemented with elements of accounting on an accrual basis.
11. Deprive public institutions of the right to lease state property (**redundant property**) on a **long-term** basis. Allow institutions to lease state property (**temporarily out of use**) only on a **short-term** basis. Long-term lease of property shall fall exclusively under the jurisdiction of appropriate committees for state property management and awarded through bidding. Revenues arising from long-term lease of property should be consolidated in the federal budget revenues without linkage to revenues of particular agencies.